

## Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA

INFO CINCPAC HONOLULU HI

C O N F I D E N T I A L STATE 210944

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: ETRN, RP

SUBJECT: CIVAIR - PROBLEMS WITH PHILIPPINES

REF: (A) MANILA 11598; (B) MANILA (11069

1. RECENT DISCUSSIONS BETWEEN PAN AM CHAIRMAN SEAWELL AND SENIOR DEPT OFFICIALS DEALT WITH PAN AM'S WORLDWIDE PROBLEMS. SPECIFIC DIFFICULTIES IN PHILIPPINES MENTIONED ONLY TANGENTIALLY IN AN OTHERWISE EXTENSIVE TOUR D'HORIZON AND NO SOLUTIONS EXPLORED. PAN AM AND OTHER US CARRIERS STILL FAVOR APPROPRIATE HOMECOMING FARES, BUT SO FAR HAVE HAD NO ENCOURAGEMENT FROM GOP. GIVEN ITS HIGH LOAD FACTORS AVERAGING 84 PERCENT ON MANILA-GUAM ROUTE FOR FIRST EIGHT MONTHS THIS YEAR PAN AM ARGUES, WITH CONSIDERABLE LOGIC, THAT ANY RATE REDUCTIONS WOULD HAVE TO BE MATCHED BY CAPACITY INCREASES. PAN AM, ALONG WITH OTHER CARRIERS, HAVE GIVEN UP HOPE OF OBTAINING CAPACITY RELIEF THROUGH COMPANY OR DIPLOMATIC EFFORTS AND ARE URGING STRONGER ACTION SUCH AS SECOND STEP OF PART 213.

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2. MEANWHILE, PHILIPPINE REBATES, WITH THEIR PATENTLY DIS-

CRIMINATORY NATURE, ARE SOURCE OF SERIOUS CONCERN TO US CARRIERS AND GOVT AGENCIES, BOTH FOR THEIR DIRECT EFFECT ON COMPETITIVE STRUCTURE OF AIR SERVICE TO PHILIPPINES, AND FOR PRECEDENT THEY MAY ESTABLISH IN OTHER BILATERAL SITUATIONS. SO LONG AS REBATES AVAILABLE, PHILIPPINE CARRIERS PRESUMABLY

HAVE LITTLE INTEREST IN REACHING AGREEMENT ON LOWER HOME-COMING FARES, SINCE ANY ALTERNATIVE WOULD ONLY REDUCE THEIR REVENUES. MOREOVER, PHILIPPINE GOVT AWARE THAT ANY APPROACH TO USG ON FARES WOULD BRING COUNTER-REQUEST FOR CAPACITY INCREASES AND WOULD REDUCE PHILIPPINE ABILITY TO BARGAIN FOR THEIR LONGSTANDING GOAL OF EXPANDED US TRAFFIC RIGHTS. UNDER THESE CIRCUMSTANCES IT IS UNDERSTANDABLE THAT PHILIPPINE GOVT SEES NO IMMEDIATE SHORT-TERM INTEREST IN INITIATING DISCUSSIONS ON HOMECOMING FARES, WHILE THEY MAY EVEN HOPE OUR CONCERN ABOUT HOMECOMING SUBSIDIES MIGHT BE USED BY PHILS TO LEVER CONCESSIONS FROM US IN OTHER AREAS.

3. WHILE WE SHARE EMBASSY'S CONCERN THAT CIVIL AIR ISSUES REPRESENT SOURCE OF SOME FRICTION BETWEEN TWO SIDES, WE DO NOT SEE POSSIBILITY OF ANY MAJOR INITIATIVE ON EITHER SIDE AT THIS TIME. GOP HAS NEVER EVEN RESPONDED TO US PROPOSALS COVERING A BASIS FOR THE RESUMPTION OF FORMAL NEGOTIATIONS. WE CONTINUE TO BELIEVE, AS WE INFORMED AMBASSADOR SULLIVAN, THAT THE PHILIPPINE AVIATION STRATEGY IS FUNDAMENTALLY RELATED TO THE ACQUISITION OF DC-10'S FOR USE ON ESTABLISHED ROUTES OR ON ANY NEW ROUTES ACQUIRED FROM THE US. SINCE THIS NEW EQUIPMENT WILL NOT BE AVAILABLE FOR SOME TIME, GOP EVIDENTLY FEELS LITTLE PRES-SURE FOR A SOLUTION IN THE SHORT TERM WHICH WOULD PROVIDE US CARRIERS WITH IMMEDIATE OPPORTUNITIES BUT WHICH THE PHILIPPINE CARRIER COULD NOT EXPLOIT FOR SOME PERIOD OF TIME. UNDER CIRCUMSTANCES, WE BELIEVE BEST APPROACH IS TO MAKE OUR VIEWS ON THE HOMECOMING FARE QUESTION KNOWN FORMALLY TO THE PHILS AND AWAIT ANY REACTION. THE EMBASSY SHOULD THEREFORE ADVISE THE GOP BY APPROPRIATE MEANS THAT THE US CARRIERS STAND READY TO DISCUSS AN ECONOMIC HOME-COMING FARE WHICH COULD BE UTILIZED ON A NON-DISCRIMINATORY BASIS BY ALL CARRIERS. SECOND, THE GOP SHOULD BE INFORMED  
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OF OUR SERIOUS CONCERN WITH THE DISCRIMINATORY NATURE OF THE EXISTING REBATE SYSTEM WHICH ON THE FACE OF IT PROVIDES A VERY SUBSTANTIAL ADVANTAGE TO THE PHILIPPINE CARRIER. THESE TWO MATTERS ARE CLEARLY RELATED BUT WE WOULD LEAVE IT TO THE EMBASSY'S DISCRETION AS TO THE MANNER IN WHICH THE TWO MATTERS ARE PRESENTED TO THE GOP. HOWEVER, FOR DOMESTIC AND THIRD COUNTRY REASONS, WE WANT TO BE ABLE TO REGARD THE REPRESENTATIONS MADE ON THE DISCRIMINATORY

NATURE OF THE EXISTING HOMECOMING FARE AS A PROTEST. THIS WILL SERVE TO DEMONSTRATE TO OUR INDUSTRY AND OTHER AGENCIES THAT WE ARE LOOKING OUT FOR OUR COMMERCIAL INTERESTS. IT WILL AVOID ANY ASSERTION BY THIRD COUNTRIES WITH A POSSIBLE INTEREST IN THE ADVANTAGES OF SUCH A

DISCRIMINATORY FARE OF CLAIMING US ACQUIESCENCE IN THE PHILIPPINE FARE.

4. PLEASE REPORT ANY RESPONSE.

5. FYI. DEPT HAS JUST LEARNED THAT NORTHWEST HAS DECIDED TO FILE FOR A "HOMECOMING" FARE AT DOLS 495 FOR GROUPS OF TEN ON NON-DISCRIMINATORY BASIS, AND SEEKS AN EFFECTIVE DATE OF NOV 1. END FYI. KISSINGER

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